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BEFORE THE
POSTAL REGULATORY
COMMISSION WASHINGTON, D.C.
20268-0001

Statutory Review of the System)
For Regulating Rates and Classes) Docket No. RM2017-3
For Market Dominant Products)

COMMENTS OF THE DATA & MARKETING ASSOCIATION, AMERICAN CATALOG MAILERS ASSOCIATION, AMERICAN FOREST & PAPER ASSOCIATION, ASSOCIATION FOR POSTAL COMMERCE, ENVELOPE MANUFACTURERS ASSOCIATION, GREETING CARD ASSOCIATION, IDEALLIANCE, PARCEL SHIPPERS ASSOCIATION, AND SATURATION MAILERS COALITION, PURSUANT TO COMMISSION ORDER NO. 3673

The Data & Marketing Association (DMA), American Catalog Mailers Association (ACMA), American Forest & Paper Association (AF&PA), Association for Postal Commerce (PostCom), Envelope Manufacturers Association (EMA), Greeting Card Association (GCA), Idealliance, Parcel Shippers Association (PSA), and Saturation Mailers Coalition, appreciate the opportunity to provide comments pursuant to Commission Order No. 3673.

The Joint Parties believe that the Market Dominant rate setting structure established by the Postal Accountability and Enhancement Act of 2006 (PAEA) in practice over the past 10 years has met its statutory objectives and should not be modified. Many of the Joint Parties are not providing comments on potential modifications as they believe none are needed. They are relying upon Commission Order No. 3766 that if the Commission believes modifications to the rate setting process are needed, Joint Parties may present comments on any modification without prejudice due to their silence in these comments.

Order No. 3673 set out objectives of PAEA on which the Commission desired comments: incentives to reduce costs; predictable, stable, just and reasonable rates; high quality service standards; pricing flexibility; adequate revenues for financial stability of the Postal Service (USPS); reduced administrative burdens; enhanced mail security; and, allocation of institutional costs. The Joint Parties respectfully comment on those objectives as follows

1. *Provide incentives to USPS to reduce costs.*

Since passage of PAEA, USPS has streamlined its transportation and mail sorting networks. Through negotiations with its employee organizations it has created greater use of non-full time employees and a new pay schedule for new employees, which has given USPS management more flexibility to schedule its workforce to meet processing and delivery needs while holding down costs of operations. The requirement that postage rates for market dominant mail change no more than the rate of inflation (CPI-U) has produced results and real positive benefits for consumers, businesses and nonprofit organizations. Prior to PAEA rates were established under cost of service pricing, where costs were simply passed on to mail users through higher rates. Under PAEA that is no longer true. USPS has been required to keep operating costs under control. PAEA has worked. We are concerned, however, that USPS cost cutting efforts have slowed in recent years, as noted by the Government Accountability Office. Eliminating the cap would be counterproductive as the incentives for USPS to reinvigorate such efforts would be reduced.

2. Establish predictable and stable rates of postage.

Under the 1970 Postal Reorganization Act the interval between postal rates and fees changes fluctuated between 7 and 48 months, eventually settling approximately every three years, with rates increasing up to 25% in some instances. Businesses and nonprofit organizations could not predict what their postage costs would be and, thus, had difficulty planning their use of the mail. Members of the Joint Parties had difficulty budgeting for the increases, which resulted in less mail than originally planned. PAEA has brought stability and predictability to Joint Parties members.

Although postage increases for products and services within a class of mail may vary above and below inflation, the CPI cap on the class of mail keeps those variations within stable ranges. The CPI-U cap is very appropriate for our members as that government measure is the basis for price increases for many vendor contracts as well as Social Security, income tax indices, etc. It is a measurement which is familiar to our members for their planning purposes. Moreover, under the 1970 law mailers could not predict what postage rates would be, could not plan what postal budgets would be, and were less likely to plan new mailing campaigns. This proved to be of great concern not only to businesses selling goods and services, but also to organizations dependent upon donations received through mail solicitations. The inflation capped rates eliminate most of that uncertainty.

During the USPS request for exigent postage increase due to the Great Recession and the corresponding sunset of those exigent increases, Joint Parties members were unable to confidently predict what their postage costs would be. However, we recognize that such a safety valve is necessary under the inflation cap system.

Contrasting American postal rates with those of Europe, whose posts do not have such an inflation cap, shows how effective the PAEA rate setting system has been. European postage rates are significantly higher than the United States, and European postage continues to rise faster than inflation.[1] PAEA has succeeded.

3. Maintain high quality service standards.

It is important for the viability of USPS that the services it provides meet the needs of its customers. PAEA gave the Commission authority to review and change service standards. USPS may still use adjustments in service standards to meet cost pressures and Congressional mandates, which were reasons cited by USPS in N2012-1 for mail processing changes resulting

[1] United States postage excluding the exigent surcharge has increased slightly above inflation due to USPS not implementing a postage change during the time of deflation. Although the decline in postage forgone was small, the higher postage remains in the base and is compounded every year.

in service standard changes. Also, there was and remains the danger that USPS would reduce service as a means to control costs to meet its budget under the inflation cap. Fortunately, the Commission has review authority. This process under PAEA has worked.

4. Grant USPS pricing flexibility.

Under the current rate making structure, USPS has pricing flexibility for market dominant products within each class of mail. USPS has used that flexibility consistently to meet costing or marketing needs. For example, pricing of flat-shaped products within Marketing Mail have increased above inflation in some years and below in others. The same has occurred in First-Class Mail for both single piece and non-single piece products.

This flexibility allows USPS to adjust the rates for products within the class to align those products with their costs. The application of the CPI cap for each class allows USPS flexibility without the potentially more dramatic postage change swings that a cap applying to the entire USPS system would allow. PAEA has worked in this regard, and USPS has used that pricing flexibility.

PAEA also allows USPS to change rates annually (within 45 days) without having to endure a 10-month long administrative rate proceeding. This has been a vast improvement over rate setting process under the 1970 Postal Reorganization Act. These annual increases within inflation allow USPS to better meet the needs of its customers and while meeting the changing economic circumstances.

5. Provide adequate revenues to USPS.

Has PAEA provided USPS with adequate revenue? USPS finances indicate that rates provide USPS with adequate revenues to meet controllable and operating costs. They provide funds for operations (personnel, capital, facilities, etc.), payment for workers' compensation insurance to the Department of Labor, and payments for the annual cost of retiree health benefits. USPS is in the enviable financial position of having over 90% funding for its defined benefit pension plans. Even for retiree health benefits, USPS has 50% funding and has not dipped into those funds in the 10 years since the passage of PAEA.[2]

Congress required a steep 10 year schedule to fully fund retiree health benefits—something not required of any other government or private entity. This Congressionally-forced, extraordinary payment schedule is not a part of the PAEA rate setting plan. That plan has worked, but for this retiree healthcare benefits prepayment schedule. To adjust the market dominant inflation cap to account for this extraordinary mandated payment would place these payments within the rate base which would then have them compounded every year forever. This would be a tremendous burden on mailers and would undermine the goal of the cap to incent USPS to become more efficient. It is Congress that must correct this burdensome obligation on USPS.

The Administration and Congress are currently reviewing health care costs and insurance, including Medicare and Medicaid. Within the near future that review will end, and legislation will move forward. Now is not the time to change a working rate setting procedure based upon current health care options which may no longer be applicable in the future.

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[2] USPS is constrained to have the billions and billions of dollars in its pension and retiree health benefits funds invested in low yield government instruments. If it could invest those funds in a more balanced portfolio, the funding percentages would be significantly higher. Only Congress has authority to correct this. It is not the fault of the PAEA rate making process.

6. Reduce administrative burdens.

What a breath of fresh air the rate change process has been administratively for USPS and mailers. No longer is there a 10-month adversarial proceeding to determine the revenue needs of USPS and how to distribute the burden to meet those needs among postal products. The administrative savings for our members have been tremendous. And the inflation cap has made those reduced burdens possible. PAEA retained complaint procedures at the Commission as a check on the streamlined rate setting process. Moreover, the Commission reviews that the rates USPS will implement are within the CPI cap, and annually solicits further input broadly in the Annual Compliance Determination process. PAEA has been successful.

9. To allocate the total institutional costs of the Postal Service appropriately between market dominant and competitive products.

The minimum contribution requirement for competitive products is reviewed periodically by the Commission as required by 39 U.S.C. 3633(b). This review is currently being done in Docket No. RM2017-1. Also, the PAEA specifically prohibits "cross subsidization." *See,* 39 U.S.C. 3633(a)(1) and (2). The Commission reviews this annually through the compliance process. These processes have worked well,[3] and there is no need to address this matter in the current rulemaking.

In conclusion, the rate setting procedure Congress established in 2006 has worked, is working and will work. This procedure is far, far superior to the cost of service administrative procedure of the 1970 Act. We urge the Commission to continue unchanged the PAEA rate setting process and procedures.

Respectfully submitted,

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[3] The actual competitive product institutional cost contribution has risen under PAEA from the legally-mandated 5.5% to 16.5% solely through competitive market forces. Here too PAEA is working.

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